

OVID-ELSIE AREA SCHOOLS

ELSIE, MICHIGAN

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2005

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 15, 2005

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Ovid Elsie Area Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ovid Elsie Area Schools, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ovid Elsie Area Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ovid Elsie Area Schools as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated July 15, 2005 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II - VII and 20, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ovid Elsie Area Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf PC

LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

OVID ELSIE AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Ovid Elsie Area Schools, a K-12 school District located in Clinton County, Michigan, is in its third year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Ovid Elsie Area Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

OVID ELSIE AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

District Wide Financial Statements: (Continued)

These two statements report the Ovid Elsie Area Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreased in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Current Assets	\$6,820,354	\$19,415,318
Non-Current Assets	<u>35,054,140</u>	<u>23,559,206</u>
<u>TOTAL ASSETS</u>	<u><u>\$41,874,494</u></u>	<u><u>\$42,974,524</u></u>
<u>LIABILITIES</u>		
Current Liabilities	\$2,348,117	\$2,257,780
Long-Term Liabilities	<u>32,663,706</u>	<u>32,868,044</u>
Total Liabilities	\$35,011,823	\$35,125,824
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	1,912,531	1,898,305
Restricted - Debt Service	56,134	116,810
Restricted - Capital Projects	482,428	661,470
Unrestricted	<u>4,411,578</u>	<u>5,172,115</u>
Total Net Assets	<u><u>\$6,862,671</u></u>	<u><u>\$7,848,700</u></u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u><u>\$41,874,494</u></u>	<u><u>\$42,974,524</u></u>

OVID ELSIE AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2005 and 2004, the District wide results of operations were:

	<u>2005</u>	<u>2004</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$580,148	\$572,257
Property Taxes Levied for Debt Service	1,577,759	1,506,374
State of Michigan Unrestricted Foundation Aid	11,161,278	10,758,753
Other General Revenues	<u>406,773</u>	<u>227,601</u>
Total General Revenues	\$13,725,958	\$13,064,985
<u>Operating Grants:</u>		
Federal	640,696	1,040,457
State of Michigan	971,266	945,095
Other Operating Grants	<u>318,139</u>	<u>412,542</u>
Total Operating Grants	\$1,930,101	\$2,398,094
<u>Charges for Services:</u>		
Food Service	277,738	270,256
Athletics	47,175	54,073
Other Charges for Services	<u>87,438</u>	<u>73,577</u>
Total Charges for Services	<u>\$412,351</u>	<u>\$397,906</u>
Total Revenues	\$16,068,410	\$15,860,985
<u>EXPENSES</u>		
Instruction & Instructional Support	8,387,576	7,981,446
Support Services	5,723,702	5,156,552
Community Services	261,752	136,870
Food Service	614,074	571,415
Athletics	252,136	241,590
Interest on Long-Term Debt	1,515,882	1,529,852
Depreciation	<u>299,317</u>	<u>299,317</u>
Total Expenses	<u>\$17,054,439</u>	<u>\$15,917,042</u>
<u>(DECREASE) IN NET ASSETS</u>	(\$986,029)	(\$56,057)
<u>BEGINNING NET ASSETS</u>	<u>7,848,700</u>	<u>7,904,757</u>
<u>ENDING NET ASSETS</u>	<u><u>\$6,862,671</u></u>	<u><u>\$7,848,700</u></u>

OVID ELSIE AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2005, the District's Total Net Assets decreased by \$986,029 to a total of \$6,862,671. This represents a 12% decrease over the prior year. The largest portion of the net assets are the districts investment in fixed assets. Net assets (invested in capital assets, net of related debt) increased by \$14,226 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The districts Unrestricted Net Assets decreased by \$760,537 during the year and the restricted portion of the net assets decreased by \$239,718. The restricted Net Assets consist of the Investment in Capital Assets-net of related Debt, the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall expenditures exceeded its revenues for the year by \$986,029. Total Revenues increased by \$207,425 or 1% over last years amounts. The major change was increased state aid. Expenditures and other financing uses increased by \$1,137,397. Major changes were due to salary and fringe benefit increases.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$796,124 during the year with the decrease coming primarily from a reduction in cash. Revenues for the year were virtually unchanged from the prior year as they declined by \$8,550. Expenditures for the year increased by \$679,082, due to wage and fringe benefit increases. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead levy

2. Per Student Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Ovid Elsie Area Schools foundation allowance was \$6,700 per student for the 2004-2005 school year.

OVID ELSIE AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

3. Student Enrollment:

The District's student enrollment for the fall count of 2004-2005 was 1,797 students. An increase of 80 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 17 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2004-2005 fiscal year was \$580,148. An increase of \$9,985 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Actual & Original Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$13,154,123	\$13,589,456	\$13,589,440	3.31	(0.00)
Expenditures	13,543,816	14,385,564	14,385,564	(6.21)	0.00
<u>TOTAL</u>	<u>(\$389,693)</u>	<u>(\$796,108)</u>	<u>(\$796,124)</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Ovid Elsie Area Schools amends its budget quarterly during the school year. For fiscal year June 30, 2005, the budget was amended in June, 2005. The June, 2005 budget amendment was the final budget for the fiscal year. There were no significant variations between the original and final budget.

OVID ELSIE AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-04	Increases 6-30-05	Principal Payments 6-30-05	Principal Balance 6-30-05
Bonds Payable	\$32,804,505	\$0	\$810,000	\$31,994,505
MI School Bond Loan Fund	462,737	687,903	0	1,150,640
Unpaid Sick Days Payable	410,801	0	27,049	383,752
<u>Total Long-Term Bond Obligations</u>	<u>\$33,678,043</u>	<u>\$687,903</u>	<u>\$837,049</u>	<u>\$33,528,897</u>

Significant debt transactions for the year besides the required principal and interest payments was the activity of the Michigan School Bond Loan Fund as follows:

B. Michigan School Bond Loan Fund

The School District has entered into a loan agreement with the Michigan School Bond Loan Fund to borrow monies over a period of years sufficient to extinguish the interest and principal requirements of the 2002 Debt Issue as they become due. The School is required to begin repaying the debt at the point where the School District's State Equalized Valuation times its levy will be in excess of its interest and principal requirements for the 2002 Debt Issue. The loan shall bear interest at the average interest rate computed to the nearest one-eighth of one percent, paid by the State on obligations issued pursuant to Section 16 of Article IX of the State Constitution of 1983. The balance payable at June 30, 2005 was \$1,150,640.

C. Capital Assets

The district's net investment in capital assets decreased by \$317,735 during the fiscal year. This can be summarized as follows:

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
Capital Assets	\$17,985,454	\$214,527	\$46,897	\$18,153,084
Less: Accumulated Depreciation	(7,508,652)	(532,262)	(46,897)	(7,994,017)
<u>Net Investment Capital Outlay</u>	<u>\$10,476,802</u>	<u>(\$317,735)</u>	<u>\$0</u>	<u>\$10,159,067</u>

Significant additions were a new track and parking lots. The 2002 capital projects was completed in July, 2005 and the capital assets additions will be included in the subsequent year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Ovid Elsie Area Schools.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$3,029,647	\$3,101,598
Investments	1,590,388	14,207,891
Due from Other Governmental Units	2,197,712	2,104,572
Inventory	2,607	1,257
Total Current Assets	<u>\$6,820,354</u>	<u>\$19,415,318</u>
<u>NON-CURRENT ASSETS</u>		
Construction in Progress	24,895,073	13,082,404
Capital Assets	18,153,084	17,985,454
Less: Accumulated Depreciation	(7,994,017)	(7,508,652)
Total Noncurrent Assets	<u>\$35,054,140</u>	<u>\$23,559,206</u>
<u>TOTAL ASSETS</u>	<u>\$41,874,494</u>	<u>\$42,974,524</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Salaries Payable	\$955,577	\$926,692
Accrued Expenses	527,349	521,088
Current Portion of Long-Term Obligations	865,191	810,000
Total Current Liabilities	<u>\$2,348,117</u>	<u>\$2,257,780</u>
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	<u>32,663,706</u>	<u>32,868,044</u>
<u>TOTAL LIABILITIES</u>	<u>\$35,011,823</u>	<u>\$35,125,824</u>
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	1,912,531	1,898,305
Restricted for:		
Debt Service	56,134	116,810
Capital Projects	482,428	661,470
Unrestricted	<u>4,411,578</u>	<u>5,172,115</u>
<u>TOTAL NET ASSETS</u>	<u>\$6,862,671</u>	<u>\$7,848,700</u>

See accompanying notes to the basic financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
STATEMENTS OF ACTIVITIES
JUNE 30, 2005 AND 2004

FUNCTIONS/PROGRAMS	2005			2004
	Expenses	Charges For Services	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue & Change in Net Assets
Governmental Activities:				
Instruction	\$8,387,576	\$0	\$1,638,350	(\$6,749,226)
Support Services	5,723,702	9,785	21,054	(5,692,863)
Community Services	261,752	77,653	0	(184,099)
Food Service	614,074	277,738	270,697	(65,639)
Athletics	252,136	47,175	0	(204,961)
Interest Long-Term Obligations	1,515,882	0	0	(1,515,882)
Depreciation - Unallocated	299,317	0	0	(299,317)
<u>TOTALS</u>	<u>\$17,054,439</u>	<u>\$412,351</u>	<u>\$1,930,101</u>	<u>(\$14,711,987)</u>

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes	2,157,907	2,078,631
State Aid	11,161,278	10,758,753
Investment Earnings	296,782	200,666
Miscellaneous	109,991	26,935
Total General Revenues	<u>\$13,725,958</u>	<u>\$13,064,985</u>
Change in Net Assets	<u>(\$986,029)</u>	<u>(\$56,057)</u>
Net Assets - Beginning	<u>7,848,700</u>	<u>7,904,757</u>
<u>Net Assets - Ending</u>	<u>\$6,862,671</u>	<u>\$7,848,700</u>

See accompanying notes to the basic financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	2002 Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$2,482,705	\$3,536	\$543,406	\$3,029,647
Investments	1,590,388	0	0	1,590,388
Due from Other Governmental Units	2,197,712	0	0	2,197,712
Inventory	0	0	2,607	2,607
<u>TOTAL ASSETS</u>	<u>\$6,270,805</u>	<u>\$3,536</u>	<u>\$546,013</u>	<u>\$6,820,354</u>
<u>LIABILITIES</u>				
Salaries Payable	\$955,577	\$0	\$0	\$955,577
Accrued Expenses	284,278	0	0	284,278
Total Liabilities	\$1,239,855	\$0	\$0	\$1,239,855
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	0	0	2,607	2,607
Debt Retirement	0	0	56,134	56,134
Capital Projects	0	3,536	482,428	485,964
Unreserved:				
Undesignated, Reported In:				
General Fund	5,030,950	0	0	5,030,950
School Service Funds	0	0	4,844	4,844
Total Fund Balances	<u>\$5,030,950</u>	<u>\$3,536</u>	<u>\$546,013</u>	<u>\$5,580,499</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$6,270,805</u>	<u>\$3,536</u>	<u>\$546,013</u>	<u>\$6,820,354</u>

See accompanying notes to the basic financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total Governmental Fund Balances:			\$5,580,499
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$18,153,084 and the accumulated depreciation is \$7,994,017			10,159,067
Construction in Progress on 2002 Capital Projects Fund			24,895,073
Accrued Interest on Long-Term Debt			(243,071)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
Bonds Payable	\$31,994,505		
MI School Bond Loan	1,150,640		
Compensated Absences Payable	383,752		
Total Long-Term Liabilities			(33,528,897)
<u>TOTAL NET ASSETS -</u>			\$6,862,671
<u>GOVERNMENTAL ACTIVITIES</u>			

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General	2002 Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>	<u>Fund</u>	<u>Fund</u>		
Local Sources	\$1,086,897	\$209,863	\$1,998,410	\$3,295,170
State Sources	12,096,884	0	35,660	12,132,544
Federal Sources	405,659	0	235,037	640,696
Total Revenues	\$13,589,440	\$209,863	\$2,269,107	\$16,068,410
<u>EXPENDITURES</u>				
Current:				
Instruction	8,331,070	0	0	8,331,070
Student Services	505,576	0	0	505,576
Instructional Support	743,131	0	0	743,131
General Administration	657,611	0	0	657,611
School Administration	1,104,126	0	0	1,104,126
Business Administration	97,086	0	0	97,086
Operation & Maintenance of Plant	1,482,707	0	0	1,482,707
Transportation	908,160	0	0	908,160
Support Services - Other	14,214	0	0	14,214
Community Services	261,752	0	0	261,752
Food Service	0	0	843,463	843,463
Debt Service	0	0	2,303,734	2,303,734
Capital Outlay				
Construction Costs	0	11,812,669	190,113	12,002,782
Total Expenditures	\$14,105,433	\$11,812,669	\$3,337,310	\$29,255,412
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(\$515,993)	(\$11,602,806)	(\$1,068,203)	(\$13,187,002)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers from (to) Other Funds	(171,269)	0	171,269	0
Loan Proceeds	0	0	660,000	660,000
Other Transfers	(108,862)	0	0	(108,862)
Total Other Financing Sources (Uses)	(\$280,131)	\$0	\$831,269	\$551,138
Net Change in Fund Balance	(\$796,124)	(\$11,602,806)	(\$236,934)	(\$12,635,864)
<u>FUND BALANCE - BEGINNING</u>	<u>5,827,074</u>	<u>11,606,342</u>	<u>782,947</u>	<u>18,216,363</u>
<u>FUND BALANCE - ENDING</u>	<u>\$5,030,950</u>	<u>\$3,536</u>	<u>\$546,013</u>	<u>\$5,580,499</u>

See accompanying notes to the basic financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Total net change in fund balances - governmental funds	(\$12,635,864)
--	----------------

Amounts reported for governmental activities in the statement of
activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(317,735)
--	-----------

Construction in Progress	11,812,669
--------------------------	------------

Bonds Proceeds from Michiganl School Bond Loan Fund	(687,902)
---	-----------

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	810,000
--	---------

Change in accrued interest on long-term liabilities	5,754
---	-------

Decrease in accrued compensated absences	<u>27,049</u>
--	---------------

<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u>(\$986,029)</u>
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OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	Private Purpose Trusts			Trust &	
	Expendable	Non-Expendable	Total	Agency	Total
	Trusts	Trusts			
<u>ASSETS</u>					
Cash and Cash Equivalents	\$70,579	\$12,983	\$83,562	\$193,667	\$277,229
<u>TOTAL ASSETS</u>	\$70,579	\$12,983	\$83,562	\$193,667	\$277,229
<u>LIABILITIES</u>					
Due to Student Groups	0	0	0	193,667	193,667
<u>NET ASSETS - HELD IN TRUST</u> <u>FOR OTHERS</u>	\$70,579	\$12,983	\$83,562	\$0	\$83,562

See accompanying notes to the basic financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Private Purpose Trusts		
	<u>Expendable</u>	<u>Non-Expendable</u>	<u>Total</u>
<u>ADDITIONS</u>			
Revenue from Contributions and Earnings	\$144,094	\$190	\$144,284
<u>DEDUCTIONS</u>			
Scholarships and Other Expenses	91,599	0	91,599
<u>CHANGE IN NET ASSETS</u>	\$52,495	\$190	\$52,685
<u>NET ASSETS - BEGINNING OF YEAR</u>	18,084	12,793	30,877
<u>NET ASSETS - END OF YEAR</u>	<u>\$70,579</u>	<u>\$12,983</u>	<u>\$83,562</u>

See accompanying notes to the basic financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
STATEMENT OF CASH FLOWS
NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2005

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	\$190
Expenses	<u>0</u>

<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	\$190
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<u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</u>	<u>12,793</u>
--	---------------

<u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	<u><u>\$12,983</u></u>
--	------------------------

See accompanying notes to the basic financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Ovid-Elsie Area Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund & Public Improvement Fund

The Capital Projects Fund and the Public Improvement Fund are used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds and capital projects fund, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements. No annual budget for capital projects funds are required and therefore are not presented.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

O) RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2005, the District had the following investments.

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
MILAF External Investment Pool - MIMAX	<u>\$1,590,388</u>	<u>0.0027</u>	AAAm	<u>100.00%</u>

1 day maturity equals 0.0027, one year equals 1.00.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in pooled investment accounts which represents 100% of the District's total investments.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

4) DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$3,211,130 of the District's bank balance of \$3,490,912 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$277,229	\$ 3,306,876
Investments	<u>1,590,388</u>
<u>TOTAL</u>	<u>\$ 4,897,264</u>

The above amounts are reported in the financial statements as follows:

Cash Private Purpose Trusts	\$ 83,562
Cash Agency Fund	193,667
Cash – District Wide	3,029,647
Investments – District Wide	<u>1,590,388</u>
<u>TOTAL</u>	<u>\$ 4,897,264</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2005, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	<u>\$ 2,197,712</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2005, the School District had no estimated claims in conjunction with the program.

8) SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2005.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$14,842,457	\$0	\$0	\$14,842,457
Land Improvements	680,037	151,487	0	831,524
Equipment and Furniture	750,129	63,040	0	813,169
Vehicles	1,712,831	0	46,897	1,665,934
Totals at Historical Cost	\$17,985,454	\$214,527	\$46,897	\$18,153,084
Less: Accumulated Depreciation				
Buildings and Improvements	(5,233,560)	(296,007)	0	(5,529,567)
Land Improvements	(419,251)	(25,479)	0	(444,730)
Equipment and Furniture	(561,286)	(80,736)	0	(642,022)
Vehicles	(1,294,555)	(130,040)	(46,897)	(1,377,698)
Total Accumulated Depreciation	(\$7,508,652)	(\$532,262)	(\$46,897)	(\$7,994,017)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$10,476,802</u>	<u>(\$317,735)</u>	<u>\$0</u>	<u>\$10,159,067</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 56,506
Support Services	153,692
Food Service	1,492
Athletics	21,255
Unallocated	299,317
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 532,262</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

9) CAPITAL ASSETS (Continued)

Investment in capital assets – net of related debt consists of the following:

Construction in Progress	\$ 24,895,073
Capital Assets	18,153,084
Less: Accumulated Depreciation	(7,994,017)
Less: Long-Term Liabilities	(33,528,897)
Sick & Vacation Pay	383,752
2002 Capital Projects Fund Equity	<u>3,536</u>
 <u>TOTAL</u>	 <u>\$ 1,912,531</u>

10) GENERAL LONG-TERM DEBT

A) Prior Period Defeasance

On December 1, 1999, the District defeased certain obligation bonds by placing the proceeds of the new general obligation bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the District's government-wide financial statements. On June 30, 2005, \$6,695,000 of bonds outstanding are considered defeased.

B) General Obligation Bonds Payable

Ovid-Elsie Area Schools issued general obligation limited tax bonds for the purpose of remodeling, furnishing and equipping additions to existing buildings and various other projects. The bonds are dated August 1, 1995 and December 1, 1998 and require annual payments of principal and interest. The interest rates range from 3.4% to 5.6% per annum. The principal balance at June 30, 2005 was \$0 and \$8,440,000, respectively.

Ovid-Elsie Area Schools has issued General Obligation Bonds dated November 20, 2002, in the amount of \$24,300,000, bearing interest at rates varying from 2.00% to 5.00% per annum. These bonds were issued for the purpose of erecting, furnishing, equipping an addition or additions to and partially remodeling, refurbishing and re-equipping the EE Knight, Leonard and North Elementary Schools and High School; constructing improvements to the playgrounds; acquiring and installing educational technology; expanding and remodeling bus maintenance garage and constructing improvements to outdoor athletic facilities. The principal balance at June 30, 2005 was \$23,420,000.

C) Durant Resolution Package Bonds

Ovid-Elsie Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$210,537 at the interest rate of 4.761353%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2005 was \$134,505. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

10) GENERAL LONG-TERM DEBT (Continued)

D) Michigan School Bond Loan Fund

The School District has entered into a loan agreement with the Michigan School Bond Loan Fund to borrow monies over a period of years sufficient to extinguish the interest and principal requirements of the 2002 Debt Issue as they become due. The School is required to begin repaying the debt at the point where the School District's State Equalized Valuation times its levy will be in excess of its interest and principal requirements for the 2002 Debt Issue. The loan shall bear interest at the average interest rate computed to the nearest one-eighth of one percent, paid by the State on obligations issued pursuant to Section 16 of Article IX of the State Constitution of 1983. The balance payable at June 30, 2005 was \$1,150,640.

E) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2005 are as follows:

	Bonds Payable	Michigan School Bond Loan Fund	Interest	Total
June 30, 2006	\$865,191	\$0	\$1,463,018	\$2,328,209
June 30, 2007	943,697	0	1,452,306	2,396,003
June 30, 2008	951,184	0	1,404,902	2,356,086
June 30, 2009	1,001,717	0	1,370,998	2,372,715
June 30, 2010	1,052,274	0	1,333,874	2,386,148
June 30, 201-2015	6,020,442	0	5,999,842	12,020,284
June 30, 2016-2020	7,375,000	0	4,542,108	11,917,108
June 30, 2021-2025	6,010,000	0	2,792,525	8,802,525
June 30, 2026-2030	5,525,000	0	1,393,750	6,918,750
June 30, 2031-2032	2,250,000	0	168,750	2,418,750
Thereafter	0	1,150,640	0	1,150,640
<u>TOTAL</u>	<u>\$31,994,505</u>	<u>\$1,150,640</u>	<u>\$21,922,073</u>	<u>\$55,067,218</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$1,492,944.

F) Changes in General Long-Term Debt

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005	AMOUNT DUE IN ONE YEAR
<u>Governmental Activities:</u>					
General Obligation & Durant					
Bonds Payable	\$32,804,505	\$0	\$810,000	\$31,994,505	\$865,191
MI School Bond Loan Fund	462,737	687,903	0	1,150,640	0
Unpaid Sick Days Payable	410,801	0	27,049	383,752	0
<u>Total Governmental Activities</u>	<u>\$33,678,043</u>	<u>\$687,903</u>	<u>\$837,049</u>	<u>\$33,528,897</u>	<u>\$865,191</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

11) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following:

TRANSFERS TO	TRANSFERS FROM
	<u>GENERAL FUND</u>
Athletic Fund	171,269

These transfers were made to subsidize the cost of services for athletics.

12) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPSERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPSERS. That report may be obtained by writing to the MPSERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2004 through September 30, 2004 and 14.87 percent for the period October 1, 2004 through June 30, 2005 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2005, 2004 and 2003 were \$1,168,201, \$1,039,926 and \$1,003,491, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

13) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property, and casualty, theft, damage to various tort, liability, and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments to SET-SEG, Inc. Insurance Trust. The pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incur in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

14) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principal of which are the Title I and Improving Teacher Quality grants. These programs are subject to program compliance audits. The audit of these programs for and including the year ended June 30, 2005, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

The District has a remaining construction commitment on its 2002 Capital Projects Fund in the amount of \$3,536 at June 30, 2005.

REQUIRED
SUPPLEMENTARY
INFORMATION

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>REVENUES</u>				
Local Sources	\$1,020,500	\$1,086,897	\$1,086,897	\$0
State Sources	11,685,573	12,096,900	12,096,884	(16)
Federal Sources	448,050	405,659	405,659	0
Total Revenues	<u>\$13,154,123</u>	<u>\$13,589,456</u>	<u>\$13,589,440</u>	<u>(\$16)</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	7,950,729	8,331,070	8,331,070	0
Student Services	490,900	505,576	505,576	0
Instructional Support	792,152	743,131	743,131	0
General & School Administration	1,707,735	1,761,737	1,761,737	0
Business Administration	70,000	97,086	97,086	0
Operation & Maintenance of Plant	1,309,300	1,482,707	1,482,707	0
Transportation	828,100	908,160	908,160	0
Support Services - Other	12,200	14,214	14,214	0
Community Services	184,700	261,752	261,752	0
Total Expenditures	<u>\$13,345,816</u>	<u>\$14,105,433</u>	<u>\$14,105,433</u>	<u>\$0</u>
Excess of Revenues Over Expenditures	<u>(\$191,693)</u>	<u>(\$515,977)</u>	<u>(\$515,993)</u>	<u>(\$16)</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(198,000)</u>	<u>(280,131)</u>	<u>(280,131)</u>	<u>0</u>
Net Change in Fund Balance	<u>(\$389,693)</u>	<u>(\$796,108)</u>	<u>(\$796,124)</u>	<u>(\$16)</u>
<u>FUND BALANCE - BEGINNING</u>			<u>5,827,074</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$5,030,950</u>	

OTHER SUPPLEMENTAL
INFORMATION

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2005

	Special Revenue Fund	Debt Service Fund	Public Improvement Fund	Total Other Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$4,844	\$56,134	\$482,428	\$543,406
Inventory	2,607	0	0	2,607
<u>TOTAL ASSETS</u>	<u>\$7,451</u>	<u>\$56,134</u>	<u>\$482,428</u>	<u>\$546,013</u>
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	\$2,607	\$0	\$0	\$2,607
Debt Retirement	0	56,134	0	56,134
Capital Projects	0	0	482,428	482,428
Unreserved:				
Undesignated, Reported In:				
School Service Fund	4,844	0	0	4,844
<u>TOTAL FUND BALANCES</u>	<u>\$7,451</u>	<u>\$56,134</u>	<u>\$482,428</u>	<u>\$546,013</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Fund	Debt Service Fund	Public Improvement Fund	Total Other Governmental Funds
<u>REVENUES</u>				
Local Sources	\$404,281	\$1,583,058	\$11,071	\$1,998,410
State Sources	35,660	0	0	35,660
Federal Sources	235,037	0	0	235,037
Total Revenues	\$674,978	\$1,583,058	\$11,071	\$2,269,107
<u>OTHER FINANCING SOURCES (USES)</u>	171,269	660,000	0	831,269
Total Revenues & Other Financing Sources	\$846,247	\$2,243,058	\$11,071	\$3,100,376
<u>EXPENDITURES</u>				
Food Service	843,463	0	0	843,463
Debt Service	0	2,303,734	0	2,303,734
Capital Outlay	0	0	190,113	190,113
Total Expenditures	\$843,463	\$2,303,734	\$190,113	\$3,337,310
Net Change in Fund Balance	\$2,784	(\$60,676)	(\$179,042)	(\$236,934)
<u>NET ASSETS - BEGINNING</u>	4,667	116,810	661,470	782,947
<u>NET ASSETS - ENDING</u>	\$7,451	\$56,134	\$482,428	\$546,013

OVID-ELSIE SCHOOLS - ELSIE, MICHIGAN
SPECIAL REVENUE FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2005

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$4,674	\$170	\$4,844
Inventory	<u>2,607</u>	<u>0</u>	<u>2,607</u>
<u>TOTAL ASSETS</u>	<u>\$7,281</u>	<u>\$170</u>	<u>\$7,451</u>
<u>FUND EQUITY</u>			
Fund Balance - Reserved for Inventory	\$2,607	\$0	\$2,607
Fund Balance - Unreserved and Undesignated	<u>4,674</u>	<u>170</u>	<u>4,844</u>
<u>TOTAL FUND EQUITY</u>	<u>\$7,281</u>	<u>\$170</u>	<u>\$7,451</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
SPECIAL REVENUE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Cafeteria Sales	\$277,738	\$0	\$277,738
Athletic Activities	0	47,175	47,175
Earnings on Investments	4	14	18
Other Revenue	66,863	12,487	79,350
Total Local Sources	<u>\$344,605</u>	<u>\$59,676</u>	<u>\$404,281</u>
<u>State Sources</u>			
State Reimbursements	35,660	0	35,660
<u>Federal Sources</u>			
Federal Reimbursements	203,479	0	203,479
Commodities	31,558	0	31,558
Total Federal Sources	<u>\$235,037</u>	<u>\$0</u>	<u>\$235,037</u>
Total Revenues	<u>\$615,302</u>	<u>\$59,676</u>	<u>\$674,978</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from Other Funds	0	171,269	171,269
Total Revenues and Other Financing Sources	<u>\$615,302</u>	<u>\$230,945</u>	<u>\$846,247</u>
<u>EXPENDITURES</u>			
Salaries - Professional	31,600	0	31,600
Salaries - Non-Professional	157,445	141,321	298,766
Insurances	73,919	0	73,919
Fica, Retirement, Etc.	42,391	29,949	72,340
Other Benefits	1,950	0	1,950
Purchased Services	20,101	26,389	46,490
Supplies and Materials	284,585	21,329	305,914
Other	591	11,893	12,484
Total Expenditures	<u>\$612,582</u>	<u>\$230,881</u>	<u>\$843,463</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	<u>\$2,720</u>	<u>\$64</u>	<u>\$2,784</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$4,561</u>	<u>\$106</u>	<u>\$4,667</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$7,281</u>	<u>\$170</u>	<u>\$7,451</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
DEBT RETIREMENT FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2005

	<u>1995</u> <u>DEBT</u>	<u>1998</u> <u>DEBT</u>	<u>2002</u> <u>DEBT</u>	<u>TOTALS</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	<u>\$0</u>	<u>\$16,311</u>	<u>\$39,823</u>	<u>\$56,134</u>
<u>FUND EQUITY</u>				
Fund Balance - Reserved for Debt Retirement	<u>\$0</u>	<u>\$16,311</u>	<u>\$39,823</u>	<u>\$56,134</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
DEBT RETIREMENT FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

	1995 DEBT FUND	1998 DEBT FUND	2002 DEBT	Total Afer Interfund Eliminations
<u>REVENUES</u>				
Local Sources				
Property Tax Levy	\$204,812	\$300,071	\$1,072,876	\$1,577,759
Earnings on Investments and Deposits	838	981	3,395	5,214
Other Revenue	0	85	0	85
Total Local Sources	\$205,650	\$301,137	\$1,076,271	\$1,583,058
<u>OTHER FINANCING SOURCES</u>				
Transfer from Other Debt Funds	117,829	146,222	0	0
Loan Proceeds	0	0	660,000	660,000
Total Other Financing Sources	\$117,829	\$146,222	\$660,000	\$660,000
Total Revenues and Other Financing Sources	\$323,479	\$447,359	\$1,736,271	\$2,243,058
<u>EXPENDITURES</u>				
Redemption of Bond Principal	305,000	50,000	455,000	810,000
Interest on Bonded Debt	22,875	381,048	1,089,021	1,492,944
Dues and Fees	0	0	790	790
Total Expenditures	\$327,875	\$431,048	\$1,544,811	\$2,303,734
<u>OTHER FINANCING USES</u>				
Transfer to Other Debt Funds	0	0	264,051	0
Total Expenditures and Other Financing Uses	\$327,875	\$431,048	\$1,808,862	\$2,303,734
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</u>	<u>(\$4,396)</u>	<u>\$16,311</u>	<u>(\$72,591)</u>	<u>(\$60,676)</u>
<u>FUND BALANCE - BEGINNING</u>	<u>\$4,396</u>	<u>\$0</u>	<u>\$112,414</u>	<u>\$116,810</u>
<u>FUND BALANCE - ENDING</u>	<u>\$0</u>	<u>\$16,311</u>	<u>\$39,823</u>	<u>\$56,134</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2005

REVENUES FROM
Local Sources

Property Tax Levy	\$580,148
Earnings on Investments and Deposits	70,616
CC RESA S.E.	97,482
CC RESA Vocational Education	220,657
Sale of School Property	2,378
Kids Club	66,301
Rentals	4,785
Community Education	9,960
Other Local Revenues	34,570
Total Revenues from Local Sources	<u>\$1,086,897</u>

State Sources

State Aid - Membership	11,161,278
Special Education	352,004
Michigan School Readiness	270,600
Driver Education	17,540
Section 31A - At Risk	247,299
Durant	21,054
Perkins Grant	1,000
Vocational Education	26,109
Total Revenues from State Sources	<u>\$12,096,884</u>

Federal Sources

Title I	262,122
Medicaid	45,524
Improving Teacher Quality	90,297
Technology Literacy Challenge	6,626
Title V	1,090
Total Revenues from Federal Sources	<u>\$405,659</u>

TOTAL REVENUES

\$13,589,440

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTIONBASIC PROGRAMSElementary

Salaries - Professional	\$1,896,090
Salaries - Non-Professional	138,434
Insurances	581,526
Fica, Retirement, Etc.	446,958
Purchased Services	46,408
Supplies & Materials	44,715
Capital Outlay	567
Other	8,949
Total Elementary	<u>\$3,163,647</u>

Middle School

Salaries - Professional	627,585
Insurances	207,623
Fica, Retirement, Etc.	141,042
Purchased Services	26,338
Supplies & Materials	9,571
Capital Outlay	2,981
Other	1,219
Total Middle School	<u>\$1,016,359</u>

High School

Salaries - Professional	1,318,012
Insurances	338,154
Fica, Retirement, Etc.	292,251
Purchased Services	74,438
Supplies & Materials	48,356
Capital Outlay	53,408
Other	2,112
Total High School	<u>\$2,126,731</u>

Preschool

Purchased Services	<u>182,232</u>
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Total Basic Programs

\$6,488,969

ADDED NEEDSSpecial Education

Salaries - Professional	550,798
Salaries - Non-Professional	84,481
Insurances	220,580
Fica, Retirement, Etc.	142,571
Purchased Services	5,017
Supplies & Materials	9,105
Capital Outlay	7,472
Total Special Education	<u>\$1,020,024</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTION (Continued)ADDED NEEDS (Continued)Compensatory Education

Salaries - Professional	\$273,661
Salaries - Non-Professional	87,692
Insurances	97,060
Fica, Retirement, Etc.	50,659
Supplies & Materials	3,106
Total Compensatory Education	<u>\$512,178</u>

Vocational Education - High School

Salaries - Professional	93,274
Salaries - Non-Professional	10,192
Insurances	22,920
Fica, Retirement, Etc.	23,297
Purchased Services	6,509
Supplies & Materials	15,619
Total Vocational Education - High School	<u>\$171,811</u>

Total Added Needs \$1,704,013

ALTERNATIVE EDUCATION

Salaries - Professional	55,563
Salaries - Non-Professional	10,238
Insurances	36,307
Fica, Retirement, Etc.	13,738
Purchased Services	3,249
Supplies & Materials	7,421
Capital Outlay	9,815
Other	1,757
Total Alternative Education	<u>\$138,088</u>

Total Instruction \$8,331,070

SUPPORT SERVICESSTUDENT SERVICESCapital Outlay

Capital Outlay	182,073
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OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

<u>SUPPORT SERVICES (Continued)</u>	
<u>STUDENT SERVICES (Continued)</u>	
<u>Guidance Services</u>	
Salaries - Professional	\$191,156
Salaries - Non-Professional	22,107
Insurances	42,142
Fica, Retirement, Etc.	47,888
Purchased Services	1,571
Supplies & Materials	4,640
Other	13,999
Total Guidance Services	<u>\$323,503</u>
Total Student Services	\$505,576
<u>INSTRUCTIONAL STAFF</u>	
<u>Improvement of Instruction</u>	
Purchased Services	20,672
Supplies & Materials	4,995
Total Improvement of Instruction	<u>\$25,667</u>
<u>Library</u>	
Salaries - Professional	66,654
Salaries - Non-Professional	63,377
Insurances	69,574
Fica, Retirement, Etc.	29,235
Purchased Services	7,598
Supplies & Materials	46,879
Other	18,061
Total Library	<u>\$301,378</u>
<u>Audiovisual</u>	
Salaries - Professional	151,353
Insurances	52,407
Fica, Retirement, Etc.	32,366
Purchased Services	49,908
Supplies & Materials	50,603
Total Audiovisual	<u>\$336,637</u>
<u>Educational Television & Radio</u>	
Salaries - Professional	3,451
Salaries - Non-Professional	24,758
Insurances	14,717
Fica, Retirement, Etc.	6,295
Purchased Services	7,343
Supplies & Materials	22,885
Total Educational Television & Radio	<u>\$79,449</u>
Total Instructional Staff	\$743,131

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICES (Continued)GENERAL ADMINISTRATIONBoard of Education

Salaries - Professional	\$600
Purchased Services	37,812
Supplies & Materials	18,684
Other	9,435
Total Board of Education	<u>\$66,531</u>

Executive Administration

Salaries - Professional	162,456
Salaries - Non-Professional	172,765
Insurances	133,920
Fica, Retirement, Etc.	69,778
Purchased Services	45,935
Supplies & Materials	4,594
Other	1,632
Total Executive Administration	<u>\$591,080</u>

Total General Administration	\$657,611
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SCHOOL ADMINISTRATION

Salaries - Professional	535,997
Salaries - Non-Professional	142,542
Insurances	178,846
Fica, Retirement, Etc.	159,292
Purchased Services	25,709
Supplies & Materials	54,323
Other	7,417
Total School Administration	<u>\$1,104,126</u>

BUSINESS OFFICE

Purchased Services	97,086
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OPERATION AND MAINTENANCE OF PLANT

Salaries - Professional	64,507
Salaries - Non-Professional	460,807
Insurances	242,572
Fica, Retirement, Etc.	116,179
Other Benefits	1,125
Purchased Services	509,173
Supplies & Materials	86,784
Other	1,560
Total Operation and Maintenance of Plant	<u>\$1,482,707</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN

GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES

FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICES (Continued)TRANSPORTATION

Salaries - Non-Professional	\$531,126
Insurances	44,911
Fica, Retirement, Etc.	116,565
Purchased Services	34,258
Supplies & Materials	124,084
Capital Outlay	54,397
Other	2,819
Total Transportation	<u>\$908,160</u>

Other Support Services

Salaries - Non-Professional	12,546
Fica, Retirement, Etc.	1,668
Total Other Support Services	<u>\$14,214</u>

Total Support Services

\$5,512,611

COMMUNITY SERVICES

Salaries - Professional	86,590
Salaries - Non-Professional	23,257
Insurances	32,950
Fica, Retirement, Etc.	22,252
Purchased Services	86,815
Supplies & Materials	9,888
Total Community Services	<u>\$261,752</u>

Total Expenditures

\$14,105,433

OTHER FINANCING USES

Payments to Other Districts	47,284
Coaching Wages	141,320
Retirement Contributions - Athletics	19,407
Employer Social Security - Athletics	10,542
Other Transactions	61,578
Total Other Financing Uses	<u>\$280,131</u>

TOTAL EXPENDITURES AND OTHER
FINANCING USES\$14,385,564

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
Alternative Education	\$168	\$497	\$404	\$261
Alumni Account	1,928	520	392	2,056
Art Club	523	1,176	1,341	358
Athletic Account	1,029	15,510	16,453	86
Band Account	4,548	41,499	40,585	5,462
Baseball Account	1,647	3,961	3,762	1,846
Basketball/Boys	3,052	6,546	7,309	2,289
Basketball/Girls	959	5,829	4,747	2,041
Bookstore	361	1,431	1,606	186
Cash for Checks	0	1,611	1,611	0
Cheerleaders	225	7,722	7,024	923
Class of 2004	207	148	355	0
Class of 2005	3,409	2,036	4,436	1,009
Class of 2006	415	10,067	8,846	1,636
Class of 2007	396	1,929	1,176	1,149
Class of 2008	0	3,874	2,861	1,013
Class of 2009	0	83	0	83
Community Education	814	201	429	586
Computer - Aided Draft	421	53	0	474
Cross Country	1,400	3,439	3,653	1,186
E.E. Knight Elementary	12,029	23,055	26,296	8,788
F.F.A.	2,295	28,114	28,321	2,088
Football	11,315	1,189	4,285	8,219
Golf Team	1,660	2,226	2,226	1,660
Guidance Account	5,575	15,774	6,757	14,592
H.S. Account	2,816	8,767	10,316	1,267
Interest Account	4,866	1,570	1,158	5,278
K-8 Libraries	2,301	16,122	13,423	5,000
Leonard Elementary	8,681	82,705	76,448	14,938
Library	5,970	6,475	1,325	11,120
Marauderettes	438	534	726	246
Marauderettes - Football	0	2,082	1,843	239
Movie Night	0	1,376	1,238	138
National Honors Society	657	1,830	1,698	789
North Elementary	873	0	873	0
O-E Mat Club	757	2,603	2,111	1,249
O-E Mens' B'Ball	1	3,360	3,340	21
O-E Middle School	27,389	28,035	26,389	29,035
P.A.L.S.	238	0	121	117
Preschool	575	7,776	8,350	1
Purple Melon	1,046	12,482	12,622	906
Sub-Total	\$110,984	\$354,207	\$336,856	\$128,335

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN

TRUST AND AGENCY FUND

SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2005

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS JULY 1, 2003	RECEIPTS	DISBURSEMENTS	DUE TO (FROM) STUDENT GROUPS JUNE 30, 2005
Renaissance Account	\$2,188	\$5,050	\$2,925	\$4,313
School Improvement	29,491	8,475	5,119	32,847
Shop Account	2,590	9,695	11,578	707
Soccer	83	0	0	83
Softball	930	70	900	100
Stage Lighting	464	271	558	177
Student Council	4,665	23,900	23,482	5,083
Swim and Guard	1,835	1,691	1,422	2,104
Teacher's Pop	2,530	499	927	2,102
Tennis (Boys)	555	0	0	555
Track Club	40	8,206	6,970	1,276
Tri-M Music Soc.	1,193	0	965	228
TV-13 Account	0	7,165	5,864	1,301
Varsity Club	25	532	192	365
Volleyball	94	3,450	3,544	0
W.O.E.S. Radio	6,093	25,913	18,711	13,295
Yearbook	975	38,086	38,265	796
<u>TOTALS</u>	<u>\$164,735</u>	<u>\$487,210</u>	<u>\$458,278</u>	<u>\$193,667</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - SCHOLARSHIP FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

<u>CLARK ESTATE FUND</u>	
<u>BALANCE - JULY 1, 2004</u>	\$8,471
<u>RECEIPTS</u>	
Interest	21
Donations	12
Total Receipts	<u>\$33</u>
<u>DISBURSEMENTS</u>	
Transfer to Byron Green Memorial Fund	<u>278</u>
<u>BALANCE - JUNE 30, 2005</u>	<u>\$8,226</u>
<u>BYRON GREEN MEMORIAL FUND</u>	
<u>BALANCE - JULY 1, 2004</u>	\$4,952
<u>RECEIPTS</u>	
Interest	9
Donations	2,233
Transfer from Clark Estate Fund	253
Total Receipts	<u>\$2,495</u>
<u>DISBURSEMENTS</u>	
Scholarships	<u>3,000</u>
<u>BALANCE - JUNE 30, 2005</u>	<u>\$4,447</u>
<u>JACK BOWER MEMORIAL FUND</u>	
<u>BALANCE - JULY 1, 2004</u>	\$4,661
<u>DISBURSEMENTS</u>	
Scholarships	<u>0</u>
<u>BALANCE - JUNE 30, 2005</u>	<u>\$4,661</u>
<u>DAVID G. GOODRICH SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2004</u>	\$0
<u>RECEIPTS</u>	
Donations	35,651
<u>DISBURSEMENTS</u>	<u>17,343</u>
<u>BALANCE - JUNE 30, 2005</u>	<u>\$18,308</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - SCHOLARSHIP FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

<u>MARY L. GUMAER SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2004</u>	\$0
<u>RECEIPTS</u>	
Interest	37
Donations	52,781
Total Receipts	<u>\$52,818</u>
<u>DISBURSEMENTS</u>	<u>47,478</u>
<u>BALANCE - JUNE 30, 2005</u>	<u>\$5,340</u>
<u>DONALD G. THAYER, JR. SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2004</u>	\$0
<u>RECEIPTS</u>	
Donations	3,377
<u>DISBURSEMENTS</u>	<u>0</u>
<u>BALANCE - JUNE 30, 2005</u>	<u>\$3,377</u>
<u>FRED & FLORENCE DENGLE SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2004</u>	\$0
<u>RECEIPTS</u>	
Interest	41
Donations	49,679
Total Receipts	<u>\$49,720</u>
<u>DISBURSEMENTS</u>	<u>23,500</u>
<u>BALANCE - JUNE 30, 2005</u>	<u>\$26,220</u>
<u>CAMPBELL MEMORIAL LIBRARY FUND - NON-EXPENDABLE TRUST</u>	
<u>BALANCE - JULY 1, 2004</u>	\$12,793
<u>RECEIPTS</u>	
Interest	190
<u>DISBURSEMENTS</u>	<u>0</u>
<u>BALANCE - JUNE 30, 2005</u>	<u>\$12,983</u>
<u>ALL SCHOLARSHIP FUNDS</u>	
<u>BALANCE - JUNE 30, 2005</u>	<u>\$83,562</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
GENERAL OBLIGATION SERIAL BONDS
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2005

1998 DURANT RESOLUTION PACKAGE BONDS

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$210,537

	INTEREST REQUIREMENT	INTEREST RATE	PRINCIPAL REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2006	\$4,594	4.761353%	\$10,191	\$14,785
2007	21,069	4.761353%	48,697	69,766
2008	3,600	4.761353%	11,184	14,784
2009	3,068	4.761353%	11,717	14,785
2010	2,510	4.761353%	12,274	14,784
2011	1,926	4.761353%	12,859	14,785
2012	1,313	4.761353%	13,471	14,784
2013	672	4.761353%	14,112	14,784
<u>TOTAL</u>	<u>\$38,752</u>		<u>\$134,505</u>	<u>\$173,257</u>

Refunding Bonds issued December 1, 1998, and outstanding as of June 30, 2005, consisted of:

GENERAL OBLIGATION - UNLIMITED TAX BONDS

<u>PAYMENT DATE</u>	INTEREST AMOUNT NOVEMBER 1	INTEREST AMOUNT MAY 1	RATE	PRINCIPAL REQUIREMENT	TOTAL REQUIREMENT
2005-2006	\$189,536	\$189,536	4.05%	\$375,000	\$754,072
2006-2007	181,942	181,943	4.05%	390,000	753,885
2007-2008	174,045	174,045	4.10%	410,000	758,090
2008-2009	165,640	165,640	4.15%	425,000	756,280
2009-2010	156,821	156,821	4.20%	445,000	758,642
2010-2011	147,476	147,476	4.30%	460,000	754,952
2011-2012	137,586	137,586	4.35%	485,000	760,172
2012-2013	127,038	127,037	4.40%	505,000	759,075
2013-2014	115,928	115,928	4.50%	530,000	761,856
2014-2015	104,003	104,003	4.60%	550,000	758,006
2015-2016	91,353	91,352	4.65%	580,000	762,705
2016-2017	77,867	77,868	4.70%	605,000	760,735
2017-2018	63,650	63,650	4.75%	635,000	762,300
2018-2019	48,569	48,569	4.75%	665,000	762,138
2019-2020	32,775	32,775	4.75%	690,000	755,550
2020-2021	16,388	16,387	4.75%	690,000	722,775
<u>TOTAL</u>	<u>\$1,830,617</u>	<u>\$1,830,616</u>		<u>\$8,440,000</u>	<u>\$12,101,233</u>

OID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2005

Bonds issued November 20, 2002, and outstanding as of June 30, 2005, consisted of:

2002 SCHOOL BUILDING & SITE BONDS

<u>PAYMENT DATE</u>	<u>INTEREST AMOUNT NOVEMBER 1</u>	<u>INTEREST AMOUNT MAY 1</u>	<u>RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>TOTAL REQUIREMENT</u>
2005-2006	\$539,676	\$539,676	2.500%	\$480,000	\$1,559,352
2006-2007	533,676	533,676	2.800%	505,000	1,572,352
2007-2008	526,606	526,606	3.125%	530,000	1,583,212
2008-2009	518,325	518,325	3.350%	565,000	1,601,650
2009-2010	508,861	508,861	3.550%	595,000	1,612,722
2010-2011	498,300	498,300	3.650%	630,000	1,626,600
2011-2012	486,803	486,803	3.750%	660,000	1,633,606
2012-2013	474,428	474,428	4.000%	690,000	1,638,856
2013-2014	460,627	460,627	4.125%	720,000	1,641,254
2014-2015	445,777	445,777	4.250%	750,000	1,641,554
2015-2016	429,840	429,840	4.350%	780,000	1,639,680
2016-2017	412,875	412,875	5.000%	810,000	1,635,750
2017-2018	392,625	392,625	5.000%	840,000	1,625,250
2018-2019	371,625	371,625	5.000%	870,000	1,613,250
2019-2020	349,875	349,875	5.000%	900,000	1,599,750
2020-2021	327,375	327,375	5.000%	920,000	1,574,750
2021-2022	304,375	304,375	5.000%	1,100,000	1,708,750
2022-2023	276,875	276,875	5.000%	1,100,000	1,653,750
2023-2024	249,375	249,375	5.000%	1,100,000	1,598,750
2024-2025	221,875	221,875	5.000%	1,100,000	1,543,750
2025-2026	194,375	194,375	5.000%	1,100,000	1,488,750
2026-2027	166,875	166,875	5.000%	1,100,000	1,433,750
2027-2028	139,375	139,375	5.000%	1,100,000	1,378,750
2028-2029	111,875	111,875	5.000%	1,100,000	1,323,750
2029-2030	84,375	84,375	5.000%	1,125,000	1,293,750
2030-2031	56,250	56,250	5.000%	1,125,000	1,237,500
2031-2032	28,125	28,125	5.000%	1,125,000	1,181,250
<u>TOTAL</u>	<u>\$9,111,044</u>	<u>\$9,111,044</u>		<u>\$23,420,000</u>	<u>\$41,642,088</u>

OVID-ELSIE AREA SCHOOLS

ELSIE, MICHIGAN

FEDERAL AWARDS
SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2005

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 15, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Ovid Elsie Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ovid Elsie Area Schools, as of and for the year ended June 30, 2005, which collectively comprise the Ovid Elsie Area Schools' basic financial statements and have issued our report thereon dated July 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ovid Elsie Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ovid Elsie Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Ovid Elsie Area Schools, in a separate letter dated July 15, 2005.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf P.C.
LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

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July 15, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Education of
Ovid Elsie Area Schools

Compliance

We have audited the compliance of Ovid Elsie Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Ovid Elsie Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Ovid Elsie Area Schools' management. Our responsibility is to express an opinion on Ovid Elsie Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ovid Elsie Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Ovid Elsie Area Schools' compliance with those requirements.

In our opinion, Ovid Elsie Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2005-1 and 2005-2.

Internal Control Over Compliance

The management of Ovid Elsie Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Ovid Elsie Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Ovid Elsie Area Schools

Page 2

July 15, 2005

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ovid Elsie Area Schools, as of and for the year ended June 30, 2005, and have issued our report thereon dated July 15, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Ovid Elsie Area Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf P.C.
LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Michigan Department of Education:			
Title I Grants to Local Education Agencies	84.010		
ESEA Title I - Regular (04-05)		41530-0405	\$1,396
ESEA Title I - Regular (04-05)		51530-0405	260,726
Total Title I Grants to Local Education Agencies			<u>\$262,122</u>
 Title V - Innovative Education Programs	 84.298		
Title V LEA Allocation (04-05)		50250-0405	1,090
 Technology Literacy Challenge (04-05)	 84.318	 54290-0405	 6,626
 Title II A - Teacher Quality	 84.367		
Improving Teacher Quality (04-05)		50520-0405	<u>90,297</u>
 <u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			 \$360,135
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Michigan Department of Education:			
Food Distribution	10.550		
Entitlement Commodities		N/A	26,029
Bonus Commodities		N/A	5,529
Total Food Distribution			<u>\$31,558</u>
 School Breakfast Program	 10.553	 N/A	 46,113
 National School Lunch Program	 10.555	 N/A	 <u>157,366</u>
 <u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>			 \$235,037
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Clinton County RESA			
Medical Assistance Program Title XIX	93.778		
Medicaid Outreach Claims		N/A	<u>45,524</u>
 <u>TOTAL FEDERAL AWARDS</u>			 <u>\$640,696</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2004	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
\$0	\$0	\$1,396	\$0	\$1,396	\$0
0	0	260,726	0	260,726	0
<u>\$0</u>	<u>\$0</u>	<u>\$262,122</u>	<u>\$0</u>	<u>\$262,122</u>	<u>\$0</u>
0	0	1,090	0	1,090	0
0	0	6,626	0	6,626	0
<u>0</u>	<u>0</u>	<u>90,297</u>	<u>0</u>	<u>90,297</u>	<u>0</u>
\$0	\$0	\$360,135	\$0	\$360,135	\$0
0	0	26,029	0	26,029	0
0	0	5,529	0	5,529	0
<u>\$0</u>	<u>\$0</u>	<u>\$31,558</u>	<u>\$0</u>	<u>\$31,558</u>	<u>\$0</u>
0	0	46,113	0	46,113	0
<u>0</u>	<u>0</u>	<u>157,366</u>	<u>0</u>	<u>157,366</u>	<u>0</u>
\$0	\$0	\$235,037	\$0	\$235,037	\$0
0	0	45,524	0	45,524	0
<u>\$0</u>	<u>\$0</u>	<u>\$640,696</u>	<u>\$0</u>	<u>\$640,696</u>	<u>\$0</u>

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL REVENUE RECOGNIZED FOR SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS

\$640,696

FEDERAL REVENUE RECOGNIZED PER THE GENERAL
PURPOSE FINANCIAL STATEMENTS PURPOSE

General Fund	\$405,659
School Service Fund	<u>235,037</u>
<u>TOTAL</u>	<u>\$640,696</u>

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 6 of this report.
- 3) As of the date of completion of fieldwork, the Schedule of Transfers to Sub-Recipients from the Intermediate School Districts was not available. The amounts shown on the Schedule of Federal Financial Assistance as flow through from the Intermediate School Districts may not be conclusive.

OVID-ELSIE AREA SCHOOLS - ELSIE, MICHIGAN
RECONCILIATION OF FORM R 7120 " GRANT SECTION AUDITOR'S REPORT"
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Current Payments Per the Grant Section Auditor's Report (Form R 7120)	\$571,771
<u>Less:</u> State Funded Grants:	
Driver Education	(1,171)
School Breakfast Program	(6,986)
<u>Add:</u> Passed Through Clinton County RESA	
Medicaid Outreach Claims (CFDA 93.778)	45,524
Entitlement and Bonus Commodities (CFDA #10.550)	<u>31,558</u>
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF EXPENDITURES</u> <u>OF FEDERAL AWARDS</u>	<u><u>\$640,696</u></u>

OID-ELSIE AREA SCHOOLS- ELSIE, MICHIGAN
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☒ Yes ☐ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.367	Improving Teacher Quality

Dollar threshold use to distinguish between type A and type B programs:

\$ 300,000.00

Auditee qualified as low-risk auditee?

☐ Yes ☒ No

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no current year findings.

OVID-ELSIE AREA SCHOOLS- ELSIE, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2005-1) Improving Teacher Quality: grant #50520-0405

<u>Specific Requirement:</u>	Cash management.
<u>Condition:</u>	The District incorrectly forecasted its 30 day cash needs at June 30, 2005, and consequently received cash advances in excess of immediate cash needs.
<u>Criteria:</u>	The grant in question allows for cash advances for up to 30 days cash needs.
<u>Effect of Condition:</u>	The District has excess cash at June 30, 2005.
<u>Cause of Condition:</u>	Premature request of funds which could not be spent within the subsequent 30 days.
<u>Recommendation:</u>	The District should base its cash advance requests on accruable expenditures which meet the 30 day cash needs criteria.
<u>Management Response:</u>	Management will ensure that all requests will not exceed anticipated 30 day cash needs.
<u>Questioned Cost:</u>	None.

2005-2) Improving Teacher Quality: grant #50520-0405

<u>Specific Requirement:</u>	Allowable Cost/Cost Principles.
<u>Condition:</u>	The District did not complete the time certifications required for employees working solely on a single Federal award or cost objective.
<u>Criteria:</u>	The cost principles of OMB Circular A-87 require, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee".
<u>Effect of Condition:</u>	Salaries and wages charged to the program could be disallowed.
<u>Cause of Condition:</u>	The cause of the condition was the lack of knowledge of the requirement of the Circular in regards to the need for time certification.
<u>Recommendation:</u>	The District should develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.
<u>Management Response:</u>	The District will develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.
<u>Questioned Cost:</u>	None.

OID-ELSIE AREA SCHOOLS- ELSIE, MICHIGAN
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

2004-1) 21st Century Learning Centers Grant CFDA #84.287; grant #S287A000683-01; grant period ended August 31, 2004

Specific Requirement: Cash management.

Condition: The District incorrectly forecasted its 3 day cash needs at June 30, 2004, and consequently received cash advances in excess of immediate cash needs.

Criteria: The grant in question allows for cash advances for up to 3 days cash needs.

Effect of Condition: The District has excess cash at June 30, 2004.

Cause of Condition: Premature request of funds which could not be spent within the subsequent 3 days.

Recommendation: The District should base its cash advance requests on accruable expenditures which meet the 3 day cash needs criteria.

Status: Management ensured that all requests would not exceed anticipated 3 day cash needs.

Questioned Cost: None.

2004-2) 21st Century Learning Centers Grant CFDA #84.287; grant #S287A000683-01; grant period ended August 31, 2004

Specific Requirement: Allowable Cost/Cost Principles.

Condition: The District did not complete the time certifications required for employees working solely on a single Federal award or cost objective.

Criteria: The cost principles of OMB Circular A-87 require, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee".

Effect of Condition: Salaries and wages charged to the program could be disallowed.

Cause of Condition: The cause of the condition was the lack of knowledge of the requirement of the Circular in regards to the need for time certification.

Recommendation: The District should develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.

Status: The District will develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months. The grant was completed August 31, 2004.

Questioned Cost: None.



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 15, 2005

To the Board of Education of
Ovid-Elsie Area Schools

In planning and performing our audit of the financial statements of Ovid-Elsie Area Schools for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Ovid-Elsie Area Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

The District should ensure that after closing the general ledger for the year, that all beginning balance sheet accounts are in agreement with the prior year ending balances.

FUTURE ISSUES

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Ovid-Elsie Area Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASBS No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)



Ovid-Elsie Area Schools

Page 2

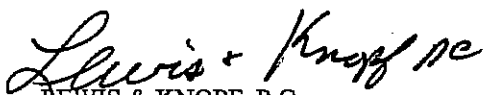
July 15, 2005

- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Ovid-Elsie Area Schools’ Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.


LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS